



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Commerce
For the Two Fiscal Years Ended
June 30, 2017

MARCH 2018

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DIVISION

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§5-13-202(2), MCA

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by Government Auditing Standards. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2015, was issued March 29, 2016. The Single Audit Report for the two fiscal years ended June 30, 2017, will be issued by March 31, 2018.

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LEGISLATIVE AUDIT DIVISION

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March 2018

The Legislative Audit Committee
of the Montana State Legislature:

Our enclosed report documents the results of our financial-compliance audit of the Department of Commerce for the two fiscal years ended June 30, 2017. Included in this report are five recommendations related to the federal Section 8 Housing Choice Vouchers program, internal control deficiencies pertaining to funds transferred to the department by another agency and to the monitoring of grant funds expended by subgrantees, and the charging of fees in excess of costs incurred in the department's investment internal service fund.

The department's written response to the audit recommendations is included in the audit report at page C-1. We thank the Director and her staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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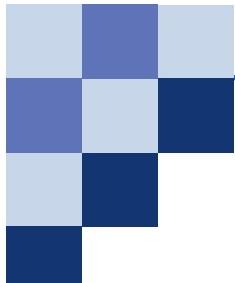
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Department of Commerce

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Marty Tuttle, Interim Deputy Director, Chief Legal Counsel
Sean Becker, Administrator, Montana Office of Tourism and Business Development
Jennifer Olson, Administrator, Community Development Division
Bruce Brensdal, Administrator, Housing Division
David Ewer, Executive Director, Board of Investments
Adam Gill, Executive Director, Montana Facility Finance Authority
Dave Desch, Executive Director, Board of Research and Commercialization Technology
Elijah Allen, Operations Director, Montana Heritage Preservation and Development Commission
Tom Tucker, Executive Secretary, Board of Horse Racing

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Department of Commerce

For the Two Fiscal Years Ended June 30, 2017

MARCH 2018

17-16

REPORT SUMMARY

The Department of Commerce expended approximately \$20 million and \$24 million in fiscal years 2016 and 2017, respectively, in its Section 8 Housing Choice Vouchers program. An internal control deficiency over contract procurements resulted in questioned costs of approximately \$2.7 million during the audit period.

Context

The Department of Commerce (department) provides financing for businesses, homeownership, and rental assistance; promotes tourism, travel, and filmmaking in Montana; manages the state's investment activity; manages and preserves historical cultural properties and artifacts; and regulates the live and simulcast horse racing industry.

The department's financial schedules include activity that we audit as part of other engagements:

- ◆ The Board of Housing, audited in the 15-07B and 17-07A engagements, provides housing for low-income families and individuals by issuing tax-exempt bonds to investors and using the proceeds to purchase mortgages.
- ◆ The Board of Investments, audited in the 16-04A and 16-04B engagements, manages local governments' investment activity. This activity, approximately \$1.165 billion and \$1.271 billion in fiscal years 2016 and 2017, respectively, is accounted for in the department's Investment Trust Fund.
- ◆ The Facility Finance Authority issues tax-exempt bonds for facilities at interest rates significantly below those that would be available at taxable bond rates and audit results are shown in the 16-12 blue cover audit report.

We relied on these audits, to the extent necessary, to provide us assurance over the related information for fiscal years 2016 and 2017.

In addition to the above reliance, we tested expenditure transactions related to various grants awarded by the department, funds transferred to the department from another state agency, and personal services. We completed federal compliance testing over the Section 8 Housing Choice Vouchers program, which included obtaining an understanding over the department's internal control policies and procedures, completing analytical procedures, and reviewing accounting transactions. We also reviewed and tested compliance with selected state laws.

Results

During the current audit, we followed up on the prior audit's five recommendations and determined four had been implemented. The remaining recommendation, related to compliance with federal cash management requirements, was not implemented for fiscal year 2016, but we determined the department was in compliance for fiscal year 2017. Due to noncompliance in fiscal year 2016, we made another recommendation to the department in this audit report.

(continued on back)

We also found in the current audit that the department did not comply with federal regulations regarding procurement of services for its Section 8 Housing Choice Vouchers program. In addition, we identified internal control deficiencies over transfers-in revenue and monitoring of grant funds expended by subgrantees. We also determined fees were not commensurate with costs in one of the department's internal service funds. These issues are discussed in the five recommendations in the current audit report.

Recommendation Concurrence	
Concur	5
Partially Concur	0
Do Not Concur	0

Source: Agency audit response included in final report.

For a complete copy of the report (17-16) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>

Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail lad@mt.gov.

Chapter I – Introduction

Audit Scope

We performed a financial-compliance audit of the Department of Commerce (department) for the two fiscal years ended June 30, 2017. The accompanying financial schedules include activity that we audit as part of other engagements. These audits are Board of Housing (15-07B, 17-07A), Board of Investments (16-04A, 16-04B), and Montana Facility Finance Authority (16-12). The reports are available upon request. The objectives of this audit were to:

1. Obtain an understanding of department's internal controls to the extent necessary to support our audit of department's financial schedules and, if appropriate, make recommendations for improvements in internal and management controls of the department.
2. Determine whether the department's financial schedules for each of the two fiscal years ended June 30, 2017, fairly present the results of operations and changes in fund equity, in accordance with state accounting policy.
3. Determine whether the department complied with selected state laws and federal regulations.
4. Determine the implementation status of audit recommendations made in the prior audit.

We addressed these objectives by focusing our audit efforts primarily on the federal grants received for the Section 8 Housing Program. We also tested activity related to personal services and grants from state sources. This included reviewing the department's internal control policies and procedures, performing analytical procedures, and reviewing accounting transactions. In addition, we relied on work completed by our staff in the Board of Investments, Board of Housing, and Facility Finance Authority audits, to the extent necessary, to provide assurance over the activity managed by those divisions. We also reviewed and tested compliance with state laws and federal regulations.

As directed by §17-8-101(6), MCA, we reviewed the reasonableness of the department's Investment Division and Director's Office internal service funds fees, charges for services, and the fund equity for fiscal years 2016 and 2017. Based on our review, we determined the Investment Division internal service fund fees were not commensurate with costs in fiscal years 2016 and 2017, and the fund equity was not reasonable in fiscal year 2017. This is discussed further on page 10.

We also considered the approximately \$48.6 million overstatement in fiscal year 2017 in the Investment Trust Fund related to the local government participant purchases

and sales activity which was referred to our audit by the Board of Investments audit (16-04B). We determined a similar error approximating \$21.7 million existed in fiscal year 2016 as well. The Independent Auditor's Report on page A-1 was not modified as a result of these errors.

Background

The department is responsible for promoting and supporting economic and community development. The department consists of many divisions and several entities that are administratively attached or allocated to the department for administrative purposes, including the Board of Housing, Montana Facility Finance Authority, Board of Research and Commercialization Technology, Board of Investments, Coal Board, Hard Rock Mining Impact Board, State Tribal Economic Development Commission, Montana Heritage Preservation and Development Commission, and the Board of Horse Racing. The following is a description of the various divisions and entities comprising the department, including the number of full-time equivalent (FTE) positions for each.

Director's Office (19.0 FTE) provides overall leadership to the department and its divisions by providing executive, administrative, legal, and policy guidance. It also offers internal support functions such as budgeting, accounting, purchasing, contracting, personnel administration, payroll, and training to all department divisions. The Director's Office also provides analysis, development, maintenance, and supervision of department data processing systems and hardware. The office's financial activity is reflected in the Management Services Division program, as shown on the Schedules of Expenditures & Transfers-Out on pages A-7 and A-8.

Montana Office of Tourism and Business Development (62.85 FTE) is responsible for promoting a positive image of the state through advertising, publicity, and international and domestic group travel, as well as printing and distribution of publications and marketing to film production companies. The division also administers programs to enhance Montana's economic and business climate, to assist businesses and communities in achieving economic prosperity, and to build the economic base of Montana through business creation, expansion, retention efforts, energy development, and the Board of Research and Commercialization Technology.

Community Development Division (27.45 FTE) works with federal, state, and local governments, as well as the private sector, in areas of community development. The division provides financial and technical assistance through several state and federal programs. These include the Community Development Block Grant Program, Neighborhood Stabilization Program, Community Technical Assistance Program,

Treasure State Endowment Program, and the Montana Home Investment Partnership Program. The Coal Board and the Hard Rock Mining Impact Board are independent citizen boards appointed by the governor that are allocated/attached to the division for administrative purposes.

Montana Facility Finance Authority (3.00 FTE) issues tax-exempt bonds for eligible facilities at interest rates significantly below those that would be available at taxable bond rates. Eligible facilities include, but are not limited to, acute care hospitals, nursing homes, assisted living facilities, retirement facilities, outpatient centers, homes for persons with developmental or mental disabilities, chemical dependency centers, and pre-release centers.

Board of Investments (32.00 FTE) invests state funds in accordance with the Montana Constitution and statutory requirements. To manage these funds, the board has created investment pools that operate similar to mutual funds. The board's pool structure changed in fiscal year 2017, and by year-end, the board's investment pools were the Short-Term Investments Pool, the Trust Fund Investment Pool, and Consolidated Asset Pension Pool, which was consolidated from five pension investment pools into one. In addition to these pools, the board manages direct investments for approximately 20 state agencies. The board also administers several programs in the Enterprise Fund, which issue bonds to assist local governments, cities, and school districts, or to provide funds to improve the state's economy.

Housing Division (55.33 FTE) administers the federal Section 8 Housing Programs, which provide rent subsidies to eligible low-income families and individuals. The Montana Board of Housing (MBOH) is also a part of the Housing Division and helps provide housing to lower income individuals and families. MBOH moneys are made available through issuance of revenue bonds.

Montana Heritage Commission (8.00 FTE) manages select state-owned historic properties located at Virginia City, Nevada City, and Reeder's Alley in Helena.

Board of Horse Racing (1.25 FTE) is responsible for the live and simulcast horse racing industry, licensing all racing personnel, establishing race dates for various communities, and establishing veterinary practices and standards in connection with horse racing meets.

Prior Audit Recommendations

The prior audit report for the two fiscal years ended June 30, 2015, contained five recommendations to the department. The department implemented four of the

recommendations. These recommendations were related to noncompliance with federal regulations pertaining to the Section 8 Housing Choice Vouchers program, noncompliance with state travel laws, an employment contract that created a conflict of interest within the Board of Horse Racing division, and inadequate controls over simulcast revenue. The remaining recommendation was related to noncompliance with federal cash management regulations. The department did not implement the recommendation for fiscal year 2016; this is further addressed in this audit report beginning on page 6.

Chapter II – Findings and Recommendations

Section 8 Housing Choice Vouchers Program

The Department of Commerce (department) administers the Housing and Urban Development's Section 8 Housing Choice Vouchers federal program (program), which provides rental assistance to very low-income families. The following two sections discuss recommendations related to this program.

Procurement

The department did not follow state procurement policies as required by federal regulations.

In order to effectively manage the program, the department contracts annually with 11 organizations to perform administrative field services for operation of the program. These organizations assist with eligibility determinations, inspections of the rental units, and initial calculations of housing assistance amounts. The department expended approximately \$2.7 million during our audit period on these services. In fiscal years 2016 and 2017, the department did not follow state procurement policies as required by federal regulations when contracting for these services.

Federal requirements specify the department must use the same policies and procedures it uses for procurement with non-federal funds. State law specifies that a contract may be awarded without competition if the department verifies in writing there is only one source for the service. The department does consider these contracts sole source procurements, but it does not have documentation supporting a sole source designation and thus is not in compliance with federal or state regulations.

Department personnel stated the Department of Administration had granted an exemption through the department's delegation agreement prior to 2007. The department no longer has the documentation for this exemption and has not documented a sole source justification since that time. Federal regulations require the department establish and maintain effective internal control over federal awards that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. A total of 22 contracts, 11 in each fiscal year, were negotiated during our audit period without documentation showing compliance with federal regulations. As a result, we question costs of \$1.3 million and \$1.4 million in fiscal years 2016 and 2017, respectively.

RECOMMENDATION #1

We recommend the Department of Commerce implement internal controls to ensure sole source justification for its Section 8 Housing Choice Vouchers field service contracts is documented and approved in order to comply with federal procurement requirements.

Cash Management

The department did not comply with the Treasury-State Agreement in fiscal year 2016.

The department expended an average of \$21.8 million in the Section 8 Housing Choice Voucher program during each fiscal year 2016 and 2017. For selected large federal programs, the Cash Management Improvement Act of 1990 requires the state to enter into agreements known as the Treasury-State Agreement (TSA), which prescribes specific methods of drawing funds from the federal government. In general, the federal government requires recipients of federal funds to minimize the time between the expending of funds and requests for reimbursement of federal funds. For the department's Section 8 Housing Choice Vouchers program, the TSA requires the department to disburse funds in the following manner:

- ◆ Payments to landlords by Electronic Fund Transfer will be disbursed so that the settlement date is the first business day of the month.
- ◆ Payments to landlords by warrant will be issued on the first business day of the month.

The department is not required to request reimbursement from the federal government like typical federal programs. Instead, the federal government uses reports provided by the department to determine the department's cash needs, and deposits money into the state's account on the first business day of the month. The department is then required to disburse the funds in accordance with the TSA, as described above.

During the prior audit, we identified noncompliance with the TSA for fiscal years 2014 and 2015 and recommended the department either follow the TSA or amend it to reflect the department's business practices. The department did seek an amendment to the 2016 TSA, but was unable to obtain one, as department personnel were informed state initiated amendments to the TSA occur at the end of every fiscal year. The department continued with its established business practices, which rendered it noncompliant with

federal cash management regulations in fiscal year 2016. We identified 54 instances, or a total of \$713,386, where individual payments to landlords were made at times other than the first business day of the month, which does not comply with the 2016 TSA. The department did amend the 2017 TSA and we found the department to be in compliance with federal cash management regulations for 2017.

RECOMMENDATION #2

We recommend the Department of Commerce continue to monitor its business practices and amend the Treasury State Agreement as needed to ensure compliance with federal cash management regulations for the Section 8 Housing Choice Vouchers program.

Internal Control Deficiencies

Per state policy, state agencies are responsible for implementing internal controls to help facilitate compliance with Generally Accepted Accounting Principles. The following two sections are areas where we identified control deficiencies related to department operations.

Transfers-In

The department did not have internal controls in place to ensure transfers-in amounts were accurate for fiscal year 2016.

The department shares the School Facility and Technology account with the Department of Natural Resources and Conservation (DNRC) and the Office of Public Instruction (OPI). During the fiscal year, DNRC transfers revenues earned from the leasing, licensing, or other use of lands and riverbeds outlined under §77-1-102(1) and (3), MCA, to the department and the OPI is able to expend the funds for school technology projects. In fiscal year 2016, the department did not have procedures in place to ensure the accuracy and completeness of approximately \$6.3 million in transfers-in recorded on its financial schedules.

Department personnel stated that because these transfers only happen once or twice a year, and the department has very little appropriation authority to spend from the fund, the department did not consider the need to verify the accuracy and completeness of the funds. Once we identified this internal control deficiency, the department implemented control procedures to obtain documentation from DNRC

supporting the amounts recorded on the financial records. In addition, department personnel requested supporting documentation from DNRC to confirm the fiscal year 2016 amounts as well. While the department implemented internal controls over these transactions in fiscal year 2017, we consider the absence of controls for fiscal year 2016 a significant control deficiency. Without controls in place over these transactions for fiscal year 2016, the risk of an undetected and uncorrected material misstatement in the department's financial records was significantly increased.

RECOMMENDATION #3

We recommend the Department of Commerce ensure its transfers-in are accurate and complete as recorded on the accounting records.

Director's Grants

The department does not have internal controls in place over its Director's grants.

The department administers a group of grants referred to as Director's grants which are funded by the lodging facility use tax allocated to the department. These grants were used to help fund festivals, create promotional videos, and support various other activities the department deemed appropriate to promote tourism throughout the state of Montana. In addition, the grants were used to promote the department as a sponsor of the events.

State policy outlines the requirements of a grant, including the necessary elements of a grant agreement. During the audit period, the department expended \$433,082 out of the \$684,000 awarded in support of 14 Director's grants. We reviewed supporting documentation for these grant expenditures in relation to state policy requirements, and found the following deficiencies:

- ◆ One instance where a grant agreement was not in place. Instead, the department submitted a sponsorship form to the grantee, but it did not specify how the grantee must utilize the funds.
- ◆ Six instances where grant agreements did not include specific information on how the grantee was to utilize the funds.
- ◆ Seven instances where expenditure support was not adequate because:
 - ◊ Support was not obtained from the grantee in order for the department to confirm the granted funds were spent in accordance with the agreement or,

- ◊ Support was obtained from the grantee but was not detailed enough to know what the funds were utilized for or how the expenditures related to the grant.

The table below lists the grants active during the audit period, including the total award amount, and the results of our review.

**Table 1
Director's Grant Awards**

Grant Recipient	Award Amount	Grant agreement in place	Grant agreement included specific requirements of the grantee	Expenditure documentation supported grant agreement
University of Montana – Mansfield Center	\$10,000 (2 - \$5,000 grants)	Yes	No	No
International Wildlife Film Festival	\$5,000	Yes	Yes	Yes
Big Sky Film Institute	\$9,000	Yes	No	No
Mainstreet Uptown Butte	\$30,000	Yes	Yes	No
Montana Book Festival	\$7,500	Yes	Yes	Yes
Gary Fellers (Professional Indian Horse Racing Association)	\$20,000	Yes	No	No
Prickly Pear Land Trusts	\$7,500	Yes	Yes	Yes
Adventure Cycling	\$50,000 (2 - \$25,000 grants)	Yes	Yes	Yes
Montana Equestrian Events, Inc	\$10,000	No	N/A	N/A
Montana Association of Land Trusts	\$20,000	Yes	Yes	Yes
Montana Association of Land Trusts	\$15,000	Yes	No	No
Montana Department of Fish, Wildlife, and Parks	\$500,000	Yes	No	No

Source: Compiled by the Legislative Audit Division from department records.

N/A - unable to test due to the lack of a grant agreement.

Department personnel stated the identified deficiencies were mainly due to not having standardized procedures implemented for these grants. The department plans to develop processes to ensure all grants are adequately supported and administered consistently.

RECOMMENDATION #4

We recommend the Department of Commerce implement monitoring control procedures to ensure Director's grants are supported in accordance with state policy.

Internal Service Fund

The department's internal service fund fees were not commensurate with costs during the audit period.

The department uses an internal service fund to account for the investment services provided to other agencies by the Board of Investments (board). Per §17-8-101(6), MCA, fees deposited in the internal service fund type must be based upon commensurate costs. Using a 60-day working capital as our basis, as outlined in state policy, we completed an analysis to determine the working capital in the fund for fiscal years 2016 and 2017. Working capital is defined in state policy as the amount of cash that would remain if all of the current assets were converted, and all current liabilities were paid, at their book value. In looking at both working capital and fund equity, we adjusted these amounts for noncash transactions related to pension and other post-employment benefits. Based on our analysis, the working capital exceeded the 60-day allowance by approximately \$260,991 and \$530,989, or by 18 days and 34 days, in fiscal years 2016 and 2017, respectively, indicating investment fees were higher than necessary and resulting in noncompliance with state law. In addition, our analysis also showed the fund equity balance in the same fund had been increasing since fiscal year 2015. The fiscal year 2017 fund equity balance exceeded 60 days of expenditures by \$181,098, which we did not consider reasonable.

Per department staff, the fees the department charges to state agencies are based on the salaries of the people employed with the board. The costs are allocated to the investment pools' asset classes proportionate to the time involved in managing each asset class. The board experienced retirements and other situations that led to vacancy savings, and because the employees who retired were in higher paying positions, the revenue generated was greater than the costs. However, the rates approved by the legislature are a maximum rate and the board has the discretion to use a lower rate during the fiscal year as a means to alleviate excess working capital; but the board did not make adjustments when these vacancy savings occurred, resulting in excessive charges to state agencies.

RECOMMENDATION #5

We recommend the Department of Commerce comply with state law and maintain a reasonable fund equity balance and ensure fees are commensurate with costs in its investments internal service fund.

Independent Auditor's Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
 Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
 Cindy Jorgenson
 Joe Murray

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
 of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Commerce for each of the fiscal years ended June 30, 2017, and 2016, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the department's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, deferred outflows, liabilities, deferred inflows, and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the department as of June 30, 2017, and June 30, 2016, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out present fairly, in all material respects, the results of operations and changes in fund equity of the Department of Commerce for each of the fiscal years ended June 30, 2017, and 2016, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2018, on our consideration of the Department of Commerce's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 7, 2018

DEPARTMENT OF COMMERCE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund	State Special Revenue Fund \$ <u>(5,552,999)</u>	Federal Special Revenue Fund \$ <u>(4,269,327)</u>	Enterprise Fund \$ <u>170,918,825</u>	Internal Service Fund \$ <u>(3,595,189)</u>	Investment Trust Fund \$ <u>902,939,260</u>
FUND EQUITY: July 1, 2016						
ADDITIONS						
Budgeted Revenues & Transfers-In	6,493,248	12,112,940	47,533,448	8,087,249		
Nonbudgeted Revenues & Transfers-In	259,758	477,242	26,465,587	84,891	1,271,284,342	
Prior Year Revenues & Transfers-In Adjustments	15,559	(38,096)	(916,311)			
Direct Entries to Fund Equity	43,451,885	1,166,633	(5,642)	(50,408)		
Total Additions	<u>7,467,028</u>	<u>50,220,450</u>	<u>13,718,719</u>	<u>73,077,083</u>	<u>8,121,733</u>	<u>1,271,284,342</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	8,449,447	16,426,129	16,655,519	70,220,583	7,761,059	
Nonbudgeted Expenditures & Transfers-Out		(49,979)	517,740	2,750,422	340,574	1,128,018,208
Prior Year Expenditures & Transfers-Out Adjustments	(28,151)	(2,064,144)	(525,608)	631,416	19,119	
Total Reductions	<u>8,421,296</u>	<u>53,312,006</u>	<u>16,647,651</u>	<u>73,602,421</u>	<u>8,120,752</u>	<u>1,128,018,208</u>
FUND EQUITY: June 30, 2017	\$ <u>(2,192,881)</u>	\$ <u>(8,644,555)</u>	\$ <u>(7,198,259)</u>	\$ <u>170,393,487</u>	\$ <u>(3,594,208)</u>	\$ <u>1,046,205,394</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF COMMERCE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Investment Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2015	\$ (1,806,208)	\$ (169,346)	\$ (3,767,930)	\$ (12,500)	\$ 167,689,745	\$ (4,106,060)	\$ 574,464,978	\$ 31,758
ADDITIONS								
Budgeted Revenues & Transfers-In								
Nonbudgeted Revenues & Transfers-In	4	9,497,173	13,927,530		46,840,072	8,075,025		25
Prior Year Revenues & Transfers-in Adjustments		1,158,726	859,351		24,147,973	96,737	1,167,773,633	0
Direct Entries to Fund Equity			14,912		76,040			
Total Additions	<u>7,533,466</u>	<u>18,384,108</u>	<u>15,509,451</u>	<u>400,000</u>	<u>(55,393)</u>	<u>8,116,369</u>	<u>(89)</u>	<u>(64)</u>
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	6,972,209	39,843,701	15,561,453	387,500	67,102,020	7,583,756		
Nonbudgeted Expenditures & Transfers-Out	(8,389)	(2,068,070)	508,905		717,987	22,441	839,299,351	31,694
Prior Year Expenditures & Transfers-Out Adjustments	2,055		(59,510)		14,962	(699)		
Total Reductions	<u>6,965,875</u>	<u>34,423,662</u>	<u>16,010,848</u>	<u>387,500</u>	<u>67,834,969</u>	<u>7,605,498</u>	<u>839,299,351</u>	<u>31,694</u>
FUND EQUITY: June 30, 2016	\$ (1,238,613)	\$ (5,553,001)	\$ (4,269,327)	\$ 0	\$ 170,918,825	\$ (3,595,189)	\$ 902,939,260	\$ 0

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

**DEPARTMENT OF COMMERCE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Investment Trust Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits	\$ 24,880	\$ 490				\$ 24,880
Taxes	786,545	145	\$ 3,482,642	\$ 7,790,142	\$ 12,059,474	490
Charges for Services	267,977	219,623	20,851,462			29,020,804
Investment Earnings						650
Fines and Forfeits	650					58,327
Sale of Documents, Merchandise and Property	58,327					193,256
Rentals, Leases and Royalties	193,256					
Contributions and Premiums						1,263,602,600
Grants, Contracts, and Donations	360,168		70,404	84,862		515,434
Transfers-in	5,076,762	481,700	1,938,106			7,496,568
Intra-entity Revenue			36,801			36,801
Federal Indirect Cost Recoveries				297,136		297,252
Federal						58,553,322
Total Revenues & Transfers-In	6,768,565		11,850,129	46,703,193		
Less: Nonbudgeted Revenues & Transfers-In	259,758		12,552,087	73,082,724		1,371,859,958
Prior Year Revenues & Transfers-In Adjustments	15,559		477,242	26,465,587		1,298,571,820
Actual Budgeted Revenues & Transfers-In	6,493,248		(916,311)	(38,096)		(938,848)
Estimated Revenues & Transfers-In	3,741,253		12,112,941	47,533,448		74,226,886
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 2,751,995		11,822,824	49,460,439		73,046,608
			\$ 290,117	\$ (1,926,991)		\$ 0
						\$ 1,180,278
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Charges for Services	\$ (1) (78)	\$ (23)	\$ 179,049	\$ 65,160		\$ 244,208
Investment Earnings			(2,093,326)			(2,093,427)
Sale of Documents, Merchandise and Property	(0)					(0)
Rentals, Leases and Royalties	(1)					(1)
Grants, Contracts, and Donations	(3)					(3)
Transfers-in	2,752,078		(3,419)			2,748,659
Intra-entity Revenue						(1)
Federal Indirect Cost Recoveries						(3)
Federal						(3)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 2,751,995	\$ 293,559 \$ 290,117	\$ (12,713) \$ (1,926,991)	\$ 65,157		\$ 280,846
						\$ 1,180,278

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

**DEPARTMENT OF COMMERCE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Investment Trust Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS								
Licenses and Permits	\$ 4	\$ 19,665	\$ 185	\$ 3,112,819	\$ 7,805,923	\$ 3,239,303	\$ 25	\$ 19,865
Taxes		576,953	194,381	251,582,13				189
Charges for Services		220,148						11,495,895
Investment Earnings		2,025						28,812,070
Fines and Forfeits		71,985						2,025
Sale of Documents, Merchandise and Property		204,986						77,242
Rentals, Leases and Royalties		890						204,986
Contributions and Premiums		190,630						1,164,535,220
Grants, Contracts, and Donations		9,368,617						362,363
Transfers-in								10,227,369
Intra-entity Revenue								33,981
Federal Indirect Cost Recoveries								269,336
Federal								
Total Revenues & Transfers-In	<u>4</u>	<u>10,655,899</u>	<u>13,748,355</u>	<u>42,678,385</u>	<u>8,171,762</u>	<u>1,167,773,633</u>	<u>25</u>	<u>56,426,740</u>
Less: Nonbudgeted Revenues & Transfers-in/Adjustments		1,158,726	859,351	24,147,973	96,737	1,167,773,633	0	1,272,467,201
Prior Year Revenues & Transfers-in								1,194,036,124
Actual Budgeted Revenues & Transfers-in								90,952
Estimated Revenues & Transfers-in	<u>0</u>	<u>9,497,173</u>	<u>13,927,530</u>	<u>46,840,072</u>	<u>8,075,025</u>	<u>0</u>	<u>25</u>	<u>78,339,325</u>
Budgeted Revenues & Transfers-in Over (Under) Estimated	<u>\$ 0</u>	<u>\$ 2,285,290</u>	<u>\$ 368,076</u>	<u>\$ 44,875,889</u>	<u>\$ 7,809,512</u>	<u>\$ 0</u>	<u>30</u>	<u>73,456,768</u>
				<u>\$ 1,964,183</u>	<u>\$ 265,513</u>	<u>\$ 0</u>	<u>(5)</u>	<u>\$ 4,883,057</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS								
Licenses and Permits								
Charges for Services								
Investment Earnings								
Sale of Documents, Merchandise and Property								
Rentals, Leases and Royalties								
Contributions and Premiums								
Grants, Contracts, and Donations								
Transfers-in								
Intra-entity Revenue								
Federal Indirect Cost Recoveries								
Federal								
Budgeted Revenues & Transfers-in Over (Under) Estimated	<u>\$ 0</u>	<u>\$ 2,285,290</u>	<u>\$ 368,076</u>	<u>\$ 44,875,889</u>	<u>\$ 7,809,512</u>	<u>\$ 0</u>	<u>(5)</u>	<u>\$ 4,883,057</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF COMMERCE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Board of Horse Racing	Board of Investments	Community Development Division	Housing Division	Management Services Division	Montana Facility Finance Authority	Montana Heritage Commission	Montana Office of Tourism and Business Development	Total
Personal Services									
Salaries	\$ 8,595	\$ 2,839,354	\$ 1,149,447	\$ 2,687,348	\$ 1,341,241	\$ 200,101	\$ 335,792	\$ 3,194,566	\$ 11,756,444
Other Compensation		7,350	1,700	4,450		5,550		400	19,450
Employee Benefits	694	594,314	427,532	846,125	346,936	45,173	114,922	1,186,664	3,562,360
Personal Services-Other		54,061	(7,894)	(3,530,029)	9,132	(34,060)		21,239	
Total	9,289	3,495,079	1,578,679	3,530,029	1,697,309	216,764	450,714	4,381,630	15,359,493
Operating Expenses									
Other Services	40,464	1,591,501	638,594	3,982,226	39,721	48,990	164,735	7,584,782	14,091,013
Supplies & Materials	237	93,159	61,405	117,535	36,567	7,039	102,709	271,421	690,072
Communications	179	33,295	37,879	147,714	24,562	10,493	143,323	5,209,711	5,607,156
Travel	10,578	66,804	50,790	155,208	16,447	21,708	24,568	312,207	658,310
Rent	120	224,559	95,426	296,383	125,338	25,963	7,756	471,843	1,247,388
Utilities							105,609		105,609
Repair & Maintenance		960	5,083	433,002		144	138,578	31,674	609,441
Other Expenses	181,896	616,889	298,671	2,277,405	31,103	64,471	100,936	2,066,406	5,637,777
Goods Purchased For Resale		23					32,284		32,307
Total	233,474	2,627,190	1,187,848	7,409,473	273,738	178,808	820,498	15,948,044	28,679,073
Local Assistance									
From State Sources								6,722,172	6,722,172
Total								6,722,172	6,722,172
Grants									
From State Sources		22,796,849						8,072,516	30,869,365
From Federal Sources		13,265,091			687,495				13,952,586
Total		36,061,940			687,495			8,072,516	44,821,951
Benefits & Claims									
From Federal Sources				43,079,476				43,079,476	
STIP Distrib to Local Govts		1,128,018,208							1,128,018,208
Total	1,128,018,208			43,079,476					1,171,097,684
Transfers-out									
Fund transfers			116,349	538,106	612	1,400,000		1,762,421	3,817,488
Intra-Entity Expense						36,801			36,801
Total			116,349	538,106	612	1,436,801		1,762,421	3,854,289
Debt Service									
Bonds		1,242,210		15,250,124					16,492,334
Loans		(997)							(997)
Total		1,241,213		15,250,124					16,491,337
Post Employment Benefits									
Other Post Employment Benefits		84,002		110,399	54,401	2,535			251,337
Employer Pension Expense		340,110		319,374	158,441	27,073			844,998
Total		424,112		429,773	212,842	29,608			1,096,335
Total Expenditures & Transfers-Out	\$ 242,763	\$ 1,135,805,802	\$ 38,944,816	\$ 70,236,981	\$ 2,871,996	\$ 1,861,981	\$ 1,271,212	\$ 36,886,783	\$ 1,288,122,334
EXPENDITURES & TRANSFERS-OUT BY FUND									
General Fund			\$ 2,372,186					\$ 6,049,110	\$ 8,421,296
State Special Revenue Fund	\$ 242,763		22,523,397					29,274,634	53,312,006
Federal Special Revenue Fund			14,049,233	\$ 347,884	\$ 687,495			1,563,039	16,647,651
Enterprise Fund		\$ 1,851,343		69,889,097					73,602,421
Internal Service Fund		5,936,251			2,184,501				8,120,752
Investment Trust Fund		1,128,018,208							1,128,018,208
Total Expenditures & Transfers-Out	242,763	1,135,805,802	38,944,816	70,236,981	2,871,996	1,861,981	1,271,212	36,886,783	1,288,122,334
Less: Nonbudgeted Expenditures & Transfers-Out		1,128,272,551	147,399	1,343,894	114,085	1,378,672		320,361	1,131,576,962
Prior Year Expenditures & Transfers-Out Adjustments	132	17,761	(525,219)	632,660	432	(318)	49,697	(2,142,512)	(1,967,367)
Actual Budgeted Expenditures & Transfers-Out	242,631	7,515,489	39,322,636	68,260,427	2,757,479	483,627	1,221,515	38,708,934	158,512,739
Budget Authority	280,959	8,031,241	44,327,535	79,815,840	2,904,678	561,586	1,297,546	44,356,537	181,575,922
Unspent Budget Authority	\$ 38,328	\$ 515,751	\$ 5,004,899	\$ 11,555,413	\$ 147,199	\$ 77,959	\$ 76,031	\$ 5,647,603	\$ 23,063,183
UNSPENT BUDGET AUTHORITY BY FUND									
General Fund			\$ 16,240					\$ 113,051	\$ 129,291
State Special Revenue Fund	\$ 38,328		343,589	\$ 150,000				4,300,968	4,908,916
Federal Special Revenue Fund			4,645,070	2,861,614	\$ 5			1,233,584	8,740,273
Enterprise Fund		\$ 381,149		8,543,799		\$ 77,959			9,002,907
Internal Service Fund		134,602			147,194				281,796
Unspent Budget Authority	\$ 38,328	\$ 515,751	\$ 5,004,899	\$ 11,555,413	\$ 147,199	\$ 77,959	\$ 76,031	\$ 5,647,603	\$ 23,063,183

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF COMMERCE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Board of Horse Racing	Board of Investments	Community Development Division	Housing Division	Management Services Division	Montana Facility Finance Authority	Montana Heritage Commission	Montana Office of Tourism and Business Development	Total
Personal Services									
Salaries	\$ 10,635	\$ 2,761,343	\$ 1,243,546	\$ 2,575,234	\$ 1,365,247	\$ 164,796	\$ 382,317	\$ 3,355,372	\$ 11,858,491
Other Compensation		10,600	2,150	3,300		4,400	981	21,431	
Employee Benefits	885	520,732	439,457	751,124	316,225	35,027	136,306	1,167,111	3,366,867
Personal Services-Other		(59,618)		71,919	(27,120)	546			(14,273)
Total	11,520	3,233,057	1,685,153	3,401,577	1,654,352	204,769	518,622	4,523,464	15,232,515
Operating Expenses									
Other Services	44,585	1,512,089	540,917	3,998,268	32,158	27,507	32,216	6,455,745	12,643,485
Supplies & Materials	625	52,984	43,377	442,790	41,651	5,106	117,941	171,813	876,287
Communications	50	37,086	48,533	134,027	25,578	4,651	121,329	6,253,380	6,624,634
Travel	9,986	56,086	70,594	137,469	20,504	18,989	18,585	326,457	658,670
Rent	145	220,730	88,389	295,675	119,944	25,508	8,076	484,393	1,242,760
Utilities							104,030		104,030
Repair & Maintenance		1,048		429,501		9,610	8,274	205,194	22,255
Other Expenses	148,813	635,224	715,670	1,666,494	45,987	46,886	118,534	2,134,129	5,511,737
Goods Purchased For Resale							31,275	28,967	60,242
Total	204,204	2,515,247	1,508,485	7,104,125	295,432	136,921	757,180	15,877,139	28,398,733
Equipment & Intangible Assets									
Equipment								(6,762)	(6,762)
Total								(6,762)	(6,762)
Capital Outlay									
Buildings							131,218		131,218
Other Improvements							214,116		214,116
Total							345,334		345,334
Local Assistance									
From State Sources								6,211,855	6,211,855
Total								6,211,855	6,211,855
Grants									
From State Sources		4,084,090						7,175,057	11,259,147
From Federal Sources		11,933,773							12,368,140
Total		16,017,863			434,367			7,175,057	23,627,287
Benefits & Claims									
From Federal Sources				39,344,397				39,344,397	
STIP Distrib to Local Govts		839,299,351						839,299,351	
Total		839,299,351			39,344,397				878,643,748
Transfers-out									
Fund transfers			51,673		503		31,694	2,201,196	2,285,066
Intra-Entity Expense				51,673		33,981			33,981
Total			51,673		503	33,981	31,694	2,201,196	2,319,047
Debt Service									
Bonds		619,397		16,343,059					16,962,456
Loans		997							997
Total		620,394		16,343,059					16,963,453
Post Employment Benefits									
Other Post Employment Benefits		83,639		110,358		54,098			250,603
Employer Pension Expense		233,041		213,008		113,719			573,584
Total		316,680		323,366		167,817			824,187
Total Expenditures & Transfers-Out	\$ 215,724	\$ 845,984,729	\$ 19,263,175	\$ 66,516,524	\$ 2,552,471	\$ 391,995	\$ 1,652,831	\$ 35,981,949	\$ 972,559,397
EXPENDITURES & TRANSFERS-OUT BY FUND									
General Fund				1,120,732				5,845,143	\$ 6,965,875
State Special Revenue Fund	\$ 215,724			4,940,108				28,034,193	34,423,662
Federal Special Revenue Fund			13,202,335	\$ 271,533	\$ 434,367			2,102,613	16,010,848
Capital Projects Fund							387,500		387,500
Enterprise Fund		\$ 1,197,984		66,244,990			391,995		67,834,969
Internal Service Fund		5,487,394			2,118,104				7,605,498
Investment Trust Fund		839,299,351							839,299,351
Permanent Fund						31,694			31,694
Total Expenditures & Transfers-Out	215,724	845,984,729	19,263,175	66,516,524	2,552,471	391,995	1,652,831	35,981,949	972,559,397
Less: Nonbudgeted Expenditures & Transfers-Out		(60)	839,305,723	696,738	600,980	29,260	3,817	28,109	(2,160,647)
Prior Year Expenditures & Transfers-Out Adjustments	10,800		1,811	(1,011,274)	(933)		8,284	(14,409)	(2,389,441)
Actual Budgeted Expenditures & Transfers-Out	204,983		6,677,195	19,577,710	65,916,477	2,523,211	379,894	1,639,131	40,532,036
Budget Authority	238,726		7,912,673	42,207,194	79,395,415	2,652,685	510,483	1,790,552	45,851,981
Unspent Budget Authority	\$ 33,742	\$ 1,235,478	\$ 22,629,483	\$ 13,478,939	\$ 129,474	\$ 130,589	\$ 151,421	\$ 5,319,945	\$ 43,109,070
UNSPENT BUDGET AUTHORITY BY FUND									
General Fund				1,503,614				188,812	\$ 1,692,426
State Special Revenue Fund	\$ 33,742			17,492,935	\$ 50,000			4,688,551	22,416,649
Federal Special Revenue Fund			3,632,934	2,956,779	\$ 115,633			442,582	7,147,927
Enterprise Fund		\$ 988,662		10,472,160			\$ 130,589		11,591,411
Internal Service Fund		246,816			13,841				260,657
Unspent Budget Authority	\$ 33,742	\$ 1,235,478	\$ 22,629,483	\$ 13,478,938	\$ 129,474	\$ 130,589	\$ 151,421	\$ 5,319,944	\$ 43,109,070

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

Department of Commerce
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2017

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Capital Projects, Debt Service, and Permanent). In applying the modified accrual basis, the department records:

- ◆ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ◆ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Investment Trust) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

- ◆ **General Fund** – to account for all financial resources except those required to be accounted for in another fund. Our uses for general fund are to help with economic development, international trade, match for federal programs, community technical assistance, research and information and grants.

- ◆ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include; Distressed Woods, Micro-business Loans, School Facilities and Tech Account, Treasure State Endowment Fund, Coal Board, and Montana Heritage Commission.
- ◆ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include assistance programs such as Community Development Block Grants, Housing Tax Credit Exchange, Neighborhood Stabilization, and HOME grants.
- ◆ **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department uses this fund for costs of historic preservation and supporting improvements in Virginia and Nevada Cities.
- ◆ **Permanent Fund** – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the department's programs. The department uses this fund for income from sales of personal property by the Montana Heritage Commission.

Proprietary Fund Category

- ◆ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. Department Internal Service Funds include the Investment Division and the Director's Office.
- ◆ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Department Enterprise Funds include; Facility Finance Authority, Board of Housing, Board of Investments Industrial Revenue Bonds, and Section 8 Housing Programs.

Fiduciary Fund Category

- ◆ **Investment Trust Fund** – to account for the local government participant activity in the Short-Term Investment Pool (STIP) and Trust Fund Investment Pool (TFIP) managed by the Board the Investments in a fiduciary capacity. Both the STIP and TFIP are considered external investment pools. The local government participants are legally separate entities from

the State of Montana. Under the financial schedule format adopted by the Legislative Audit Committee, the additions to the Investment Trust Fund represent purchases by the local government participants in the pools and their net investment earnings. The deductions represent sales from the local government participants in the pools and income distributions to those participants.

2. Negative Fund Equity Balance

- ◆ **General Fund** – the negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2016 and June 30, 2017.
- ◆ **State Special Revenue Fund** – the negative fund equity balance in the state special revenue fund does not indicate overspent appropriation authority. For each of the fiscal years ended June 30, 2016 and June 30, 2017, noncash liabilities related to the A-accruals created the negative fund equity presented on the Schedule of Total Expenditures & Transfers-Out.
- ◆ **Federal Special Revenue Fund** – the negative fund equity balance in the federal special revenue fund does not indicate overspent appropriation authority. For each of the fiscal years ended June 30, 2016 and June 30, 2017, noncash liabilities related to the A-accruals created the negative fund equity presented on the Schedule of Total Expenditures & Transfers-Out.
- ◆ **Internal Service Fund** – the negative fund equity balance in the Internal Service Fund does not indicate overspent appropriation authority. For each of the fiscal years ended June 30, 2016 and June 30, 2017, noncash liabilities related to the state pension liability and OPEB created the negative fund equity presented on the Schedule of Total Expenditures & Transfers-Out.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General and State Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

Direct entries to fund equity in the General, State Special Revenue, Federal Special Revenue Fund, Capital Projects, Internal Service, and Enterprise funds include: correction of an error from a previous period that occurred at least two fiscal years prior; change in accounting principle, or a change in the application of an accounting principle; reduction of accrued grant awards; reclassification of prepaid expenses, reclassification of inventory, reclassification of fund balance.

The difference in direct entries between fiscal year 2016 and fiscal year 2017 is related to closing cash to administering business units.

4. Montana Heritage Commission Trust Fund

SB 64 changed the requirement for depositing money from sales of assets by the Montana Heritage Commission. Since they no longer have to deposit those funds in the trust, the money was moved out of the trust and into the state special revenue fund. At the time, there was only one instance where they sold assets to be put into the trust. The trust fund is still available should the Commission decide they want to deposit funds into the trust.

5. Unspent Budget Authority

The difference in unspent budget authority is due to a continuing appropriation for the Treasure State Endowment Program. Because it is a continuing appropriation, any unspent authority is carried forward to the next year. Any valid obligations at the end of fiscal year 2017 were accrued.

6. Consolidating of Divisions

The department consolidated the Business Resources Division and the Montana Promotion Division into the Montana Office of Tourism and Business Development Division on July 1, 2015.

7. Subsequent Events

The 2017 legislature changed funding for the Indian Country Economic Development program and Primary Business Sector from general fund to Big Sky Trust Fund effective July 1, 2017.

On June 26, 2017, a bond resolution in the amount not to exceed \$75 million to finance single-family home loans was brought before the Montana Board of Housing and approved for issuance. On September 7, 2017, a purchase contract for purchase, sale and delivery of \$42.6 million in bonds closing on October 18, 2017. \$11.9 million of the funds will be used to refund previous issues. \$30.3 million will be used to purchase eligible Montana home loans. The remaining portion will be used to pay cost of issuance.

Since June 30, 2017, the Montana Board of Investments (MBOI) made additional commitments to fund loans from the INTERCAP loan program in the amount of \$10.0 million.

In August, reduced revenues triggered SB 261 from the 2017 Legislative session. SB 261 transfers an estimated amount of \$3,317,968 from the bed tax to general fund for the biennium. It also reduced general fund appropriations throughout the department in the amount of \$287,687 for the biennium. On August 22, 2017, the MBOI approved two QZAB loans in the amount of \$1.4 million.

As of August 22, 2017, the MBOI had approved an additional loan guarantees from the Coal Severance Tax Permanent Fund to Montana Facility Finance Authority (MFFA) totaling \$15 million. The MBOI also approved an increase of \$4 million to a previously approved \$10 million commercial loan commitment. Since June 30, 2017, the MBOI has received an additional \$28.8 million in loan reservations from Montana lenders.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Commerce for each of the fiscal years ended June 30, 2017, and 2016, and the related notes to the financial schedules, and have issued our report thereon dated February 7, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the department's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of department internal control. Accordingly, we do not express an opinion on the effectiveness of the department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies

may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described below, that we consider to be a significant deficiency.

The department did not have adequate internal controls in place over funds transferred from another agency to ensure the amounts were accurate and complete. See discussion on page 7 of this audit report.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the department's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Department of Commerce Response to Findings

The Department of Commerce's response to the findings identified in our audit are described on page C-1 of this report. The department's response was not subjected to the auditing procedures applied in the audit of the financial schedules and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 7, 2018

DEPARTMENT OF
COMMERCE

DEPARTMENT RESPONSE

PAM HAXBY-COTE
DIRECTOR



STEVE BULLOCK
GOVERNOR

March 20, 2018

Mr. Angus Maciver
Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, Montana 59620-1705

RECEIVED
MAR 23 2018
LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver:

We have reviewed the recommendations pertaining to the Department of Commerce's Financial-Compliance Audit for the two fiscal years ended June 30, 2017. Our response is as follows:

RECOMMENDATION #1

We recommend the Department of Commerce implement internal controls to ensure sole source justification for its Section 8 Housing Choice Vouchers field service contracts is documented and approved in order to comply with federal procurement requirements.

Response:

The department concurs. In FY18, the department completed the sole source requirement and is now in compliance. The department has implemented new internal controls to verify the sole source status upon renewal of the contracts.

RECOMMENDATION #2

We recommend the Department of Commerce continue to monitor its business practices and amend the Treasury State Agreement as needed to ensure compliance with federal cash management regulations for the Section 8 Housing Choice Vouchers program.

Response:

The department concurs. We contacted Dept. of Administration as soon as we were aware of the noncompliance. It was our understanding that it was amended once a year. Dept of Administration amended the TSA upon their soonest renewal which was June 2016.

RECOMMENDATION #3

We recommend the Department of Commerce ensure its transfers-in are accurate and complete s recorded on the accounting records.

Response:

The department concurs. The department was relying on the audits completed by the Legislative Audit Division for the accuracy of accounting done by the Department of Natural Resources. We have implemented procedures to verify the transfer amounts.

RECOMMENDATION #4

We recommend the Department of Commerce implement monitoring procedures to ensure Director's Grant funds are used in accordance with the respective grant agreement.

Response:

The department concurs. The department is implementing a more specific procedure for the administration of these grants and has completed the auditor's documentation requirements for the past awards.

RECOMMENDATION #5

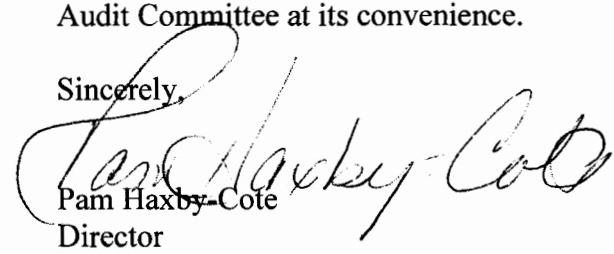
We recommend the Department of Commerce comply with state law and maintain a reasonable fund equity balance and ensure fees are commensurate with costs in its investments internal service fund.

Response:

The department concurs. The Board of Investments reduced the administrative fee charged to participants in October 2017. The Board will also continue to watch the working capital.

My staff and I will be available to discuss the audit and recommendations with the Legislative Audit Committee at its convenience.

Sincerely,



Pam Haxby-Cote
Director